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5A Contract Pricing for Architect-Engineer Services

This chapter addresses various aspects of contract pricing for architect-engineer (A/E) contracts including price evaluation and cost principles.

5.1 Price Evaluation

- 5.1.1 General 🕮
- 5.1.2 Analyzing Proposals
- 5.1.2.a Price Analysis 🕮 🗓

To perform price analysis, a base to compare the offered price to is needed. That basis for comparison, usually the Postal Service estimate, should itself be known to be reasonable. Ensure that the proposal and the base are comparable. Comparing competitive proposals is an effective method of price analysis as the evaluator is assured that the items are comparable and, presuming that the firms involved are competing with one another, that the lowest price submitted is reasonable.

To determine comparability, consider:

- a. Workmanship requirements of the specifications, quantities of work involved, performance time, and wage rates.
- b. Comparison of proposed prices to fees for similar design projects currently under way.
- c. Comparison of proposed prices with fees paid for the same or similar requirements in the past.
- d. Comparison of proposed prices with the Postal Service estimate for this project or similar work.
- e. Comparison with other A/E proposals, if there is price competition among A/E proposals.
- 5.1.2.a-10 Life Cycle Costing 1
- 5.1.2.b Adequate Price Competition

5.1.2.c Cost Analysis

Cost analysis is appropriate when there is not adequate price competition and no method of price analysis ensures a fair and reasonable price. This is particularly true for A/E contracts, as the competitive price proposal method is not the predominant mode for selecting A/E contractors. Cost analysis is limited to those cost elements that the contracting officer decides need close analysis. When limited analysis of specific cost elements or factors suffices, the contracting officer should obtain only the data needed for that analysis.

To analyze proposed costs included in an A/E's fee proposal, the contracting officer must make a judgment on the acceptability of the proposed level of both direct and indirect costs. The A/E fee is made up of direct costs, indirect costs, and profit. The negotiation process requires setting dollar values for these groupings to compute a contract price. Guidance for performing cost analysis is provided in PM 5.1.2.c and PM 5.2 and in 5.1.2.c and 5.2, chapters 5A and 5B.

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5.2 Cost Principles

- 5.2.1 General 🕮
- 5.2.2 Contract Costs
- 5,2,2,a Total Cost
- 5.2.2.b Direct Costs

Direct labor costs for A/E services are reviewed to determine whether:

- a. Individual rates or costs are commensurate with the type of effort.
- b. The total amount of labor proposed is reasonable in comparison to the work requirements.
- c. The total amount proposed is consistent with established Postal Service policy.
- d. The total amount proposed is comparable to that paid for similar work in the construction industry.
- e. Proper classifications and professional skills have been proposed.

Other direct costs for A/E services that are analyzed are those costs that are specifically identified with a project but do not fall within the classification of direct labor. Examples include:

- a. Subcontracts.
- b. Travel.

- c. Consultants.
- d. Meetings and conferences.

5.2.2.c Indirect Costs

Also see PM 5.2.12.

A/E firms incur indirect costs or overhead costs. These costs are necessary to support their work efforts on all their projects. Indirect and overhead costs are accounted for at the company level and are not directly attributed to specific projects.

Indirect costs include allowable labor burden and allowable general and administrative expenses. Methods of developing indirect costs for reviewing and negotiating overhead rates vary widely because companies differ in their individual definitions of indirect costs. To determine indirect costs:

- a. Consider auditing contractors' records.
- b. Examine past experience and industry statistics.
- c. Use professional judgment.

Typically, overhead rates for design and other services range from 120 percent to 150 percent of direct labor. Environmental and specialty contracts may run higher. Higher indirect rates must be detailed and justified in the contract file. See *Purchasing Manual* (PM) 5.2.3 for allowable indirect costs.

- 5.2.2.d Credits
- 5.2.3 Allowed Costs
- 5.2.4 Advance Agreement on Costs
- 5.2.5 Unallowable Costs

5.2.9 Educational Institutions

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5.2.12 Indirect Cost Rates

Also see 5.2.2.c.

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